8.

Funding Streams

8.1 Table 8.1 sets out each of the funding streams identified in this report and looks at the advantages and disadvantages of each approach. It also recommends next steps to those funding streams that may be applicable to the project.

8.2 To aid the reader a red/amber/green colour code has been used to identify applicable funding streams as per Figure 8.2 below.

Figure 8.1 – Traffic light assessment of opportunities

The Council and its partners should actively pursue this as funding route that will help to enable the development.
The Council and its partners should consider this as an opportunity that may be used to access public sector support.
The Council and its partners should consider this opportunity however; timescales or likelihood of success may limit its application at this time.

Table 8.1 – Assessment of opportunities for public support on the NCNF development

	Advantages	Disadvantages	Next Steps
Grant Funding	• If any grant is available for the Development, the Council and its partners should ensure that the priorities of the scheme are flexible enough to meet its objectives. • There are currently grant allocations available for transport delivery. The Council and its partners should attempt to access this for development of the M27 Junction and delivery of any off-site road improvements. • EU funding can be in the form a grant where delivery of key pan-Europe objectives is achieved; however, this is less common. Previously, these have included job creation, renewable energy and areas affected by blight.	• Grants are often prescriptive inflexible and often require significant alignment to the grant giving body. • Grants can be quite small and are usually given to enable development work rather than delivery, the exception being transport.	The Council and its partners should: • Work with the Department for Transport and the Highways Agency to assess the availability of grant for transport infrastructure; • Assess EU Objectives where grant may be available e.g. Renewal and Green infrastructure; • Ensure that the funding strategy is continually updated to ensure that any grant available is accessed.
Locally led large scale housing delivery funding	• NCNF meets the criteria of 1500+ and large scale commercial sites be outside of Enterprise Zone areas • NCNF promotes economic activity; investing in large scale land and property projects, which have local support, to deliver the infrastructure required to unlock housing and	• Advice from Homes and Communities Agency has been unclear as to whether The NCNF Development was sufficiently progressed to access funding in the first round • Any bid to be submitted is expected to be led by the	The Council and its partners should: • Investigate if it is eligible to proceed with an expression of interest at this time. If so, the landowners will need to consider whether a

	Advantages	Disadvantages	Next Steps
	commercial development • Any finance will be flexible in how it invests, enabling bespoke packages of support to be developed where needed • Finance can be used to fund land acquisitions from third parties where there is a need that relates to infrastructure delivery. • There is no upper limit to finance subject to it meeting the value for money criteria	organisation with majority control of the land • This is not grant funding, funding will be provided on a recoverable basis (with funds returned to the Homes and Communities Agency), with an appropriate rate of return applied • Appropriate security is required to access the investment.	loan or equity investment is sought; • Work with the HCA to assess the likelihood of bidding for Round 2 of this fund and ensure that it is positioned to bid; • Work with landowners, where appropriate to support any private sector bid.
Other LEP Funding including GPF	• Growth funds are aimed at unblocking stalled or difficult to deliver developments that will increase the economic activity within an area. NCNF should be seen as a key project in enabling these objectives; • Funding may be secured in the form of grant subject to the aims and objectives; • The GPF and GBB have aims and objectives that are directly met by this development; • In the future JESSICA or JERIMIE funding may be available as they are specifically aimed at development. • Elements of the Development may align with funding sources currently	• Schemes currently being funded in this manner are in a shovel ready state. If Government priorities change over the coming years then the Development may not meet the criteria. • Funding is focused on unblocking and creating an environment for growth. As such other sources of finance are expected to be investigated first. • Funding is channelled through partnership agreements between the public and private sector; a suitable agreement would need to be in place.	The Council and its partners should: • Assess the current funding streams and align, where applicable, its aims to meet their objectives. • Work closely with the LEP to ensure that the scheme is a high priority and considered for all funding that flows through the LEP • Where possible lobby Government to support the project. • Be flexible enough to

	Advantages	Disadvantages	Next Steps
	being offered by the EU, e.g. employment or green infrastructure funding.		access any future funding streams that may be pushed through the LEP
New Homes Bonus	• Approximately 6,590 of homes will be created as a result of the NCNF development realising a significant income stream. • It is estimated that income will be approximately £60M for Fareham Council and a further £15M for Hampshire County Council will be delivered from this scheme. • The Council has ring-fenced any NHB received from the NCNF Development to support the scheme. • Under current guidelines NHB would be given to the Council in line with development. This could be accessed to support the development through borrowing or through a pay as you earn mechanism.	• NHB is not ring-fenced to housing and the development would have to compete for funding with other services and priorities; • The Council may not be willing to take any funding risk on housing that has yet to be delivered, i.e. funding would only be received on the completion of houses • NHB is supplied in it current form as part of the latest CSR. This is due to run until 2015. There is no guarantee that NHB will be available for new units past this date.	The Council should: • Engage with the County Council to assess the likelihood of this funding stream being ring-fenced and made available to support NCFC Development. • Support this conversation by formulating a detailed financial benefits plan of the housing delivery, ensuring that this links to the wider aims of the Council's; • Work with land owners to produce a detailed delivery plan to assess the quantum and timing of NHB that may be available to support

	Advantages	Disadvantages	Next Steps
			infrastructure delivery; • Assess the opportunity to bring forward the delivery of affordable housing using this income stream to support delivery.
Community Infrastructure Levy (CIL)	• Specifically, for the delivery of key strategic infrastructure within the authority. • Strategic infrastructure is generally considered as items that benefit more than a single development e.g. transport, utilities etc. which matches some of the key NCNF requirements. • CIL can be used to support borrowing. Prudential borrowing can be sourced from PWLB at significantly lower rates than private finance. • Based on the Draft Charging Schedule the Council could expect to receive approximately £60M of CIL income as a result of the NCNF Development. This can be used to support key strategic infrastructure.	• No NCNF infrastructure is currently included in the 25 year plan required for the CIL charging schedule; • Not all infrastructure will form part of the strategic needs of the authority. • The development will incur a CIL charge and as such any benefit would be offset by this payment. • Generally, capital expenditure incurred by a local authority must create a tangible asset for the authority, i.e. this approach can generally only be used for infrastructure to be adopted by the Council.	The Council and its partners should: • Assess whether elements of this project should be included on their strategic CIL infrastructure plan. • Subject to being included on the CIL Infrastructure Plan, assess the quantum and timing of income and the impact this could have on supporting the development.
Utilities Re-enforcement	• Utility firms operate a 5 year investment strategy that allows the NCNF to fit in with this timeframe. • There is legal precedence for the	• There is a risk that this approach will be resisted by the utility companies which could delay delivery.	• The Council and its partners should meet and lobby with utility providers to ensure that

	Advantages	Disadvantages	Next Steps
	delivery of this infrastructure by utility companies		the key infrastructure requirements are included in their 5 year investment strategies.
School Provision	• The County Council is better positioned to meet the needs of the community if the provision is in their control. • The County Council is able to better manage the on-going costs of the school provision if it is in their control • There may be opportunities to access EU Funding to deliver schools.	• By looking for external support the delivery of the development could be delayed. • Any application for funding will have to be of sufficient size to attract EU funding. This is generally over £50M, which must be matched funded. • EU Funding could take additional time to secure.	• The Council should work with local public sector partners including the County Council and LEP to assess the appetite of a joined up approach to the delivery of educational assets. • The Council should review current EU funding, including discussion with the EIB, to assess the criteria to access EU Funding for the delivery of educational assets.
Residential Care Homes	• The delivery of the residential care homes could produce an income stream to support capital costs or other infrastructure priorities. • An ageing population means that the need for residential care will increase. Public ownership of these units could reduce the costs to the public sector. • The delivery of residential care could	• By looking for external support the delivery of the development could be delayed. • If the Public Sector took ownership of these assets any risks associated with occupation, income and M&M could impact on affordability.	• The Council, County Council and landowners should assess the opportunity for third party delivery of these assets. • If considered an appropriate opportunity, the

	Advantages	Disadvantages	Next Steps
	form part of a wider housing company structure, providing income into the structure.		Council and its partners should undertake a high level feasibility study to assess the affordability of this opportunity.
Upgrade to the M27	• There is the opportunity to secure grant funding for the upgrade of transport works, this could be through the pinch-point funding programme or the wider devolved major projects programme. • Early delivery of this item of infrastructure could attract current LEP and HCA funding e.g. LIF. • Cost associated with design and studies relating to impact assessment on the T-ENT network may be able to be picked up through EU grant funding.	• By looking for external support the delivery of the development could be delayed.	The Council and its partners should: • Assess the opportunity for early funding bids to bring forward this item of infrastructure at the start of the development; • Work with the Highways Agency to look at the opportunity for grant funding to support delivery. • Consider the benefit of early delivery through the public sector and its statement of intent to the land owners
Council Investment	• The Council can access debt at a cheaper rate than the private sector. In providing investment in to the scheme the Council could reduce the overall cost of funding.	• The Council is exposing itself to additional risk of the development not proceeding. • The Council will need to ensure that it is acting prudently in its	The Council and County Council should: • Work with the landowners to assess the opportunities that

	Advantages	Disadvantages	Next Steps
	• The Council could provide a State Aid compliant loan to landowners. This would enable the Council to make a financing gain, which could be reinvested into the scheme. • The Council can secure any investment through a charge over the land model, which will protect the revenue account and provide suitable security for any investment; • The investment can be tailored and flexible to meet the needs of the developer.	assessment of any investment and supporting cashflows. • Any investment will need to be State Aid complaint, including the inclusion of charges and fees to mirror terms offered by a commercial organisation.	the provision of cheaper finance may give. • Assess whether there are any assets with an associated income that it could delivery and adopt. • Work with the landowners to assess the possible impact of any Council investment on the overall viability of the scheme.
Local Authority Guarantee Take Up	• The Council can increase its affordable housing supply by purchasing housing that is unsold. • The developer is exposed to a reduced sales risk and therefore can attract better rates of finance. • The Council can take the stock at a cost plus price, generally lower that the market value of the unit.	• The Council will have to manage an uncertain expenditure profile should the guarantee be called. • The Council is exposing itself to the risk that significant stock may revert to public ownership.	• The Council should investigate this as a potential opportunity with the landowners and assess whether this would bring forward development in a more timely manner.
Local Housing Company	• A LHC could command additional financial capacity to fund affordable units. • The Council can use supported borrowing to lower costs. • Ability of the LHC to address other	• Council would lose an element of control by entering a multi-party JV • LHC rely on the cross subsidy of affordable and private sales. By taking on additional sales risks the LHC's return and ability to deliver	The Council and its partners should: • Assess the benefits and risks of using an external company to delivery its affordable housing

	Advantages	Disadvantages	Next Steps
	opportunities e.g. ESCO • The LHC can be wider than the NCNF development, thereby mitigating risk • The LHC can take a longer term view based on rental incomes. • The use of an LHC would allow the Council to deliver affordable housing outside the current constraints of the HRA debt cap.	housing may be inhibited. • The objectives of a wide public sector LHC may not be aligned with the specific needs of the NCNF development, thereby inhibiting its ability to deliver affordable housing in a timely manner.	needs. • Ensure the objectives of any LHC are drawn wide enough to meet its needs and requirements in relation to the NCNF development. • Working with the landowners, assess the impact a vehicle could have on improving viability or timing. • Assess the opportunities of a wider more diverse company and the impact on the NCNF development.
MUSCO & ESCO	• The organisations have the potential to generate significant income streams that can be used to support Council priorities • They can be set up to more directly meet the needs of the local community • They can be flexible and more responsive to local conditions including being able to access grant funding.	• They are a relatively new and untested model • There is a risk that the income stream may not be sufficient to meet the organisations requirements. • Depending on the agreement, this could erode the authority's Council Tax base.	The Council and its partners should: • Investigate the merits of such a ESCO/MUSCO vehicle and assess possible funding routes (including soft market testing); • Assess the appetite of the landowners to participate in a Joint Venture approach

	Advantages	Disadvantages	Next Steps
			utilising this structure; • Look at whether the ESCO/MUSCO structure could form part of a wider vehicle delivering a range of services e.g. Local Housing Company.
Self Development of affordable housing	• Can create a profit rent for the Council which can be used to support other priorities. • The Council can increase rents at RPI +0.5 (subject to the constraints of the Local Housing Allowance) whereas the repayment increases at RPI. • The Council is in control of all management aspects of the units.	• Models require land in public ownership. • The local authority provide a rent guarantee that increases the risk to the Council	The Council and its partners should: • Model the impact of the self-delivery model using the expected rental values available; • Investigate the feasibility of a S106 receipt in the form of a land transfer; • Assess the appetite of funders to deliver schemes such as this in the NCNF Development; Discuss with landowners the benefits of this type of deliver on enabling the Development as a whole.
Local Authority Revolving	• The revolving fund allows the Council and its partners to spread risk around	• A significant amount of work may be required in order to set this up;	The Council should: • Engage with its partners

	Advantages	Disadvantages	Next Steps
Infrastructure Funds	a number of developments therefore making investment more attractive through this route; • Any profit made from the investment will generally flow back to the Council (as part of the agreement). This can be used to support other Council priorities; • Funding can be flexibly structured to best meet the needs of the project. • Infrastructure funds can be expanded to include multiple partners, with a range of interests and income streams. In doing this the risk can be further defrayed from a single body.	• The Revolve fund will require a pay back at a State Aid compliant rate and therefore may not be as favourable as other routes; • The size of the Revolving Fund will be dependent on the size of the Authority and its appetite for risk. • By involving a number of partners the flexibility of the vehicle can be reduced.	to determine the appetite for a similar development fund, as a single entity, in partnership or on a County/LEP wide basis
EU Funding	• Significant funding can be secured through this route. • Funding is cheaper than can be obtained through PWLB, with rates typically 20 bps above EU Gilts. • Funding is focussed on key priorities that are included in the NCFC development. • Elements may be secured to deliver SMART Transport solutions. • Funding could be used to support County or sub-regional priorities as part of a wider funding strategy e.g. schools delivery.	• A significant amount of EU funding is required to be repaid; there is limited scope for straight grant. • Match funding from the public/private sector is generally required under the majority of EU funding models. • Bids must be made and passed through an accountable body, which are generally required to produce regular returns. • Bids are likely to be in excess of that required for the NCFC site and may require a regional approach.	The Council and its partners should: • Investigate the opportunity for a regional fund that could deliver infrastructure across Hampshire; • Ensure that the priorities of the development are flexible enough to be adapted to attract any EU Funding; • Discuss with the LEP

	Advantages	Disadvantages	Next Steps
			how EU funding could benefit the region as a whole, whilst supporting the NCNF Development.
Local Government Resource Review (LGRR) – Renewable Energy	• 100% of the business rates from renewable energy are kept locally • The emerging NCNF infrastructure requirements include a £12.7M renewable energy plant that will attract business rates for the Council • Business rates will not be ring-fenced and can be used for any Council priority.	• There is the potential for the rates retention to be spilt across tiers meaning the total take is reduced.	The Council and its partners should assess: • The significant scope for the Council on its own, or through an ESCO JV to provide support through LGRR. This support could be used to support the capital costs of the energy units or as working capital for the on-going maintenance. • Retained Rates, which will not be ring-fenced and should be used to support any infrastructure provision on the NCNF Development
Overage Agreements	• The Council can maintain a more policy compliant development. • The viability of the scheme is improved in the early years by helping to developer a faster delivery	• There is a risk that upon completion the level of affordable housing will be below a policy compliant level. • The open book policy can be difficult manage and may require	The Council and its partners should: • Assess the impact of such an agreement on the overall viability of

	Advantages	Disadvantages	Next Steps
	programme. • As land values increase, housing can be delivered through direct provision or a commuted sum. • Agreements can be written to secure above policy outcomes, subject to developer super profits	additional monitoring.	the scheme; • Work with the landowners to assess how in practice this could be delivered; • Assess the minimum level of affordable provision that could be delivered on the site, using this as a base for negotiation.
Local Government Resource Review (LGRR) – Business Rates Retention	• Rates increase will be largely "additional" due to the unique nature of the Development and the suggested employment space. • The inclusion of Public Sector money and the covenant that money brings will often encourage private sector lenders to invest in schemes that they previously would have avoided. • The new powers will give the Council the ability to attract business by giving a reduced NNDR charge, thereby encouraging business growth and pre-sales. • Under LGRR the local authority has the ability to set up a TIF type structure, ring-fencing all business rates to support the Development.	• The Council is likely to find itself as a Top Up authority at least until the first rates reset. • There may be elements of displacement that could impact on the overall business rate take by the Council. • Generally, capital expenditure incurred by a local authority must create a tangible asset for the authority, i.e. this approach can generally only be used for infrastructure to be adopted by the Council. • The Council must balance its borrowing requirement against other Council priorities in order to demonstrate value for money of	The Council and its partners should: • Assess the ability of the LGRR to support the development post the first rates reset in 2020. • Assess the flexibilities available to encourage business growth by providing rates relief.

	Advantages	Disadvantages	Next Steps
		any investment. • Based on the current rules regarding Business Rate Retention it is unlikely that a TIF would be advantageous for this development.	
Joint Ventures Development	• The Council could take an equity stake in a JV development vehicle thereby sharing the risk on those elements it is most able to add value to; • The PPP spreads the risk away from one party making it more attractive to both; • The deal would offer a potential upside for the Council in exchange for the additional risk.	• The Council will be mindful of the risks associated with the project and may require security over and above that which is normal in such a transaction; • The Council would have to look at which vehicle best allows them to invest in the project, this may differ from the most commercial advantageous. • The success of this vehicle will be dependent on the value of the assets placed in the vehicle as the public sector equity stake. If the vehicle is not large enough the set up fees become prohibitive; • Development partnerships can be costly to set up	• Discussion should be used to inform the likelihood of this approach succeeding, however, initial discussions suggest that the landowners do not look favourable on this approach.

Summary

8.3 The funding strategy needs to be a dynamic assessment of opportunities and as other opportunities develop then the development needs to be flexible enough to access these as then are identified.

8.4 Once a preferred solution or a suite of preferred solutions are identified the Council and other public sector bodies will be required to internally assess each opportunity against a number of criteria.

8.5 Appendix B details a number of considerations that the Council should to consider when assessing each opportunity. Stage 2 of this work will develop each of the preferred options against these suggested criteria to support the future approach of Fareham Council to the NCNF Development.

8.6 In considering a suite of funding solutions the Council may wish to combine a number of the opportunities identified into a single source or fund. A number of Council and Public Sector Bodies are looking at the concept of a Revolving Fund to address their needs and reduce the risk of a single approach.

9 Recommendations and Action Plan

9.1 This report has assessed a number of opportunities and structures that could be used to delivery significant investment in to the NCNF development. It has assessed both public and private sector intervention and draws on current best practice to ensure that delivery of the schemes is brought forward in a timely manner.

9.2 The report notes that a number of the finance sources and repayment are uncertain and that where funding is linked to delivery there is a higher risk to these income streams.

9.3 In order for the Council to maximise the impact of any intervention, whilst reducing the risk to an acceptable or manageable level the Council should look to use a wide range of finance and funding tools to deliver elements of the scheme.

9.4 One way to draw all finance and funding sources together could be through the use of a revolving fund mechanism.

9.5 This section looks at the applicability of a revolving infrastructure fund to the development of an integrated funding strategy.

Revolving Fund Approach

9.6 The Council should look to establish a form of revolving fund approach, possibly in partnership with other bodies, whereby the Council utilises its borrowing powers, income base, assets and the strength of the local authority's covenant, to help provide the necessary financing for investment in to the development, either alone or through a fund, in return for contributions over time.

9.7 As this Revolving Investment Fund is established, investments are then made to finance infrastructure interventions which currently cannot be funded upfront by direct contributions form developers and the private sector. The interventions are repaid from either future developer contributions unlocked or from loan repayments from developers.

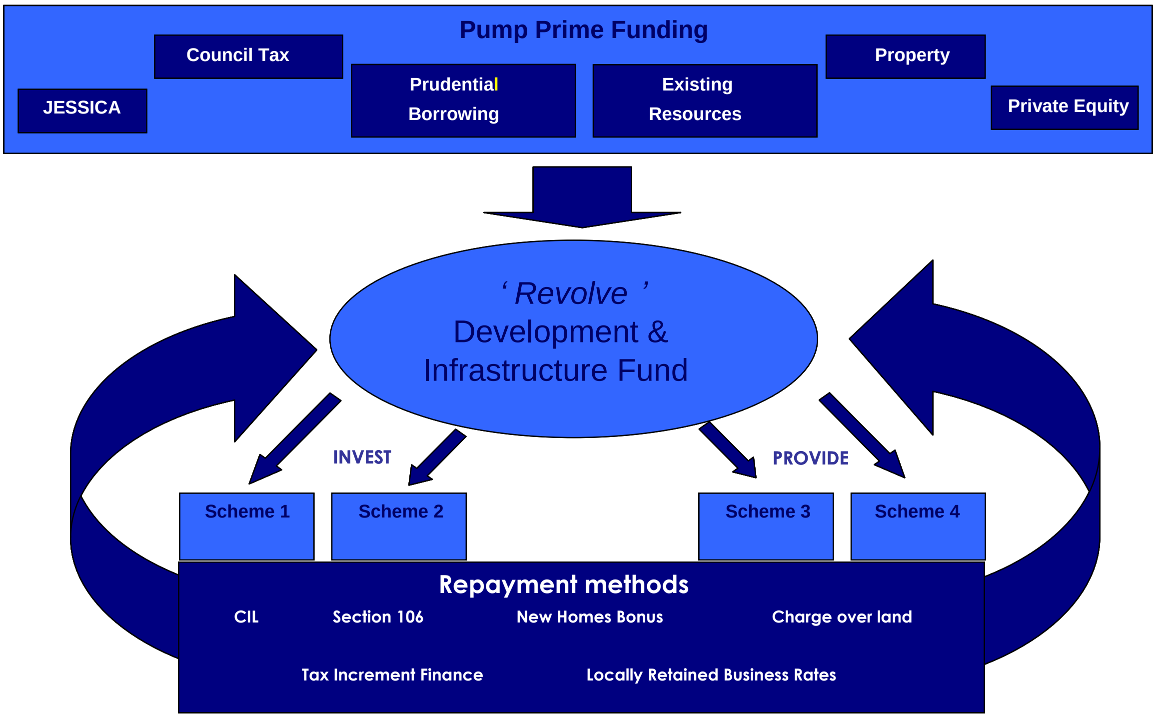
9.8 This fund could be financed from a combination of the approaches appraised above including available finance routes, capital receipts, use of reserves, direct revenue contribution, unlocking the value in its assets, prudential borrowing, utilising future developer contributions, hypothecating council tax and business rates.

9.9 The fund would make strategic interventions where strategic infrastructure cannot be funded by direct contributions form developers and the private sector. However, this intervention will be based on criteria set out by the Council and it is anticipated that only a relatively limited amount of the total infrastructure will be provided in this way.

9.10 A number of criteria will be developed with the Council to define this preferred solution, but is likely to include the elements summarised below:

- Ability to generate revolving returns that fund multiple schemes over time;
- Maximise the opportunity for investment from the private sector early in the establishment of any funding mechanism;
- Ability to utilise the Council's powers, income streams and borrowing capacity to facilitate the delivery of infrastructure provided a clear business case can be established;
- Ability to utilise the Council's assets to support a funding mechanism provided it is supported by a robust business case;
- Maximise the potential investment of other public sector bodies, such as the local LEP, the County Council, European Investment Bank (EIB), and other grant investment approaches from the UK Government; and
- Fast implementation of the chosen solution to ensure the funding mechanism can be put in place in the short term.

Figure 9.1 – Revolving Fund Approach



9.11 The application of such a fund will be considered in Phase 2 of this Funding Strategy and assessed in terms of the funding streams identified in Table 8.1, the needs of the development and new sources of finance and funding that are identified.